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Weekly Contributions  
Latin America Branch, ORE, CIA  
13 September 1949

CURRENT DEVELOPMENTS

GENERAL: Tension between Colombia and Peru over the Haya de la Torre asylum  
25X8A is expected to subside (p. 2).

CENTRAL DIVISION: Venezuela's junta will rely on the US to maintain oil  
production (p. 2). In Colombia, the government's anti-labor action is  
likely to give Conservatives political advantage (p. 3). Brazil's appoint-  
ment of an ambassador to Spain is not expected to influence other Latin  
American countries which do not already have official representation in  
Spain (p. 3).

SOUTHERN DIVISION: In Paraguay, the forced change of presidents will have  
little effect on that country's domestic or foreign policies (p. 4).

SPECIAL SUBJECTS

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The Current Situation in Chile . . . . . 7

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(CIA Working Paper)

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1. GENERAL: The Haya asylum controversy between Colombia and Peru is moving toward judicial settlement. While unable to agree on the terms in which the case should be submitted jointly to the International Court of Justice, Colombia and Peru have now agreed (31 August) that the case shall be submitted to the court, and that, prior notice having been given, proceedings may be initiated by either party. For all practical purposes, this means acceptance of the compulsory jurisdiction of the court for this particular case. It is expected that the two governments will ratify the agreement signed by their plenipotentiaries and that Colombia will take the case to the court within a reasonable time. Inasmuch as this agreement terminates the stalemate which has surrounded the Haya case, the tension it engendered should subside.

25X6A

3. VENEZUELA: Junta to Rely on "US Security Interests" to Maintain Oil Production

The oil companies in Venezuela, anticipating increasingly serious competition as the Middle East oil fields approach full production, have complained to the government that high labor costs may force them to curtail production. The junta undoubtedly recognizes the low production cost of Middle East oil as a potential -- but not immediate -- threat to Venezuela's oil income; but it also is faced with a commitment to maintain existing labor union contracts and is anxious to avoid antagonizing labor.

25X1X4

\_\_\_\_\_ recently, stated that the Venezuelan Government is not impressed with the arguments of the oil

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companies. He believes that because of the proximity of Russia to the Middle East fields, the US will not permit its security interests to be jeopardized by a drastic curtailment of oil production in Venezuela. (What he expects the US to do is not clear.)

In view of [REDACTED] fact that CIA has received no evidence that his statement has been repudiated by the junta, B/LA considers it highly probable that the junta will not take positive steps of its own to reduce production costs, but will seek to escape from its dilemma by leaving it to the US to take whatever measures may be necessary to maintain the volume of Venezuelan oil production.

4. COLOMBIA: Government's Anti-Labor Action Likely to Give Conservatives Political Advantage

The Colombian Government's initiation of a court action to dissolve the Colombian Confederation of Workers (CTC, a CTAL affiliate) has confronted the Liberals with two alternatives, either of which may cost them a crucial number of votes in the coming presidential elections. As one alternative, the Liberals can back the CTC in its fight for existence both by delaying the legal proceedings through individual Liberals in key positions and by providing encouragement and financial support for a general strike. This would alienate right-wing liberals because it would give aid to a number of important Communists who occupy positions of leadership in the CTC. If, on the other hand, the Liberals do nothing to prevent the dissolution, many rank-and-file union members may well feel that the Liberals are no better champions of labor than the Conservatives.

In all probability, the Liberals will, insofar as possible, avoid taking a public stand as a party and attempt to delay any legal action against the CTC until after the election. In any event, the Conservatives are likely to gain politically by this move.

5. BRAZIL: Brazil will appoint an ambassador to Spain to fill the post which, in compliance with the recommendations of the United Nations General Assembly, was vacated in 1946. This action of President Dutra was apparently taken at the insistence of Foreign Minister Fernandes, who is known to feel that Brazil has been at a commercial disadvantage by not having an ambassador in Madrid. The government will attempt to justify this action by pointing out that the Brazilian proposal in the last General Assembly to set aside

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the 1946 UN recommendation was expressly opposed by only 15 of the nations represented. (The Brazilian resolution required a two-thirds vote to become effective and the final vote was 26 for, 15 against, and 16 abstentions.) Having taken this action to normalize its own relations with Spain, the Brazilian Government will not, B/LA estimates, make a second attempt to have the 1946 resolution rescinded at the UN this fall. Of the other Latin American countries which do not have chiefs of mission in Madrid, none is expected to be immediately influenced by Brazil's example of sending an ambassador.

6. PARAGUAY: The forced resignation of President Molas López and his replacement by Federico Chaves, leader of the Colorado Party, is the outcome of a rivalry between the two men that had divided the entire government into opposing groups (see B/LA Wkly for 23 Aug 49). The issue was determined without resort to arms because the key military unit -- the Cavalry Division -- was persuaded by the Commander in Chief of the Armed Forces to support Chaves instead of following the lead of its commander, Colonel Mallorquin. Once Mallorquin had been ousted (to take refuge in the Brazilian Embassy), it became clear that Chaves held such overwhelming military power that there was nothing the President could do but resign. Except for a possible increase in army influence, the change of presidents will have little effect on Paraguay's domestic or foreign policies. While Molas López had increased Paraguay's ties with Argentina, there is little reason to suppose that Provisional President Chaves will make any changes in this respect. Chaves is a conservative and closely linked by economic interests to Argentine quebracho and lumber interests so that he is equally aware of Paraguay's economic dependence on Argentina.

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Situation Memorandum 50-49

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The Current Situation in the Dominican Republic

(Summary -- There is no effective opposition to Trujillo within the Dominican Republic. The economic situation is favorable. Trujillo is anti-Russian and continues to suppress Communism. Dominican defensive capabilities are increasing; the armed forces are on a semi-alert basis and training of the navy and air force has been accelerated.

-- Intra-Caribbean rivalries adversely affect the US security concept of solidarity of all 21 American Republics.)

Political

There is no effective opposition to Trujillo within the country although up to one-half of the population is reported as theoretically opposed to, or tired of, the present regime. Popular opposition appears to be centered in the towns of Puerto Plata and Santiago but no one inside the country seems to have the stature of an opposition leader. All of the Dominicans who are vigorous leaders of activities against Trujillo are in exile. Juan Bosch, Juan Rodríguez, and Miguel Angel Ramírez, who are leaders of the Caribbean Legion, are Dominican exiles.

Economic

The present economic situation is favorable and the country's terms of trade are more advantageous than they were a year ago. The value of exports for the first half of 1949 was only 4 percent under last year's exports, due to the early shipping of the 1948-49 sugar crop at a relatively high price and to the high price of coffee on the world market. Imports for January-June, excluding armaments, were 41 percent less in value than those for a similar period of 1948 and there was a favorable balance of trade for January-June. Purchases of armaments abroad, however, which apparently are not included in the import figures, are probably using up much of the country's excess foreign exchange holdings. The tobacco crop, now moving into export channels, is a bumper crop (about 30,000 tons) and is selling at rising prices. The next coffee crop, which will be harvested beginning in October, will be larger than that of last year. Domestic commercial activity is improving somewhat, after a drastic decline in volume during the first half of 1949. It is estimated that the economic situation will continue favorable during the remainder of 1949 and that the government will be able to continue its present emphasis on military activities without great difficulty.

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Subversive

Trujillo does not allow Communists to gain strength in the country and would prevent anti-US agents from operating in the country and using the coasts as clandestine bases for enemy submersible craft in case of war.

Military

The military capabilities of the Dominican Republic vis-à-vis revolutionary forces in the Caribbean is increasing. All military aircraft are now armed except primary trainers (52 out of 87 planes are armed), and practically all of the air force planes are in flying condition. Government agents are trying to buy 45 more planes. Training of the air force and navy has been accelerated and discipline and morale have improved. Capabilities and discipline of the well-trained army continue high. Although the loyalty of a few individual officers may be subject to question, to date there is no evidence that the exceptional loyalty of the armed forces to Trujillo has diminished in any way.

International

Dictator Trujillo is concerned over threats to his regime from the Caribbean Legion. Government representatives have been most active in accusing the "democracies" of fomenting war and unrest. Although B/LA does not believe that a formal conflict between the "democracies" — Cuba, Guatemala, Costa Rica and Haiti — and the "dictatorships" — the Dominican Republic and Nicaragua — is likely at this time, tensions, unrest and revolutionary activities in the Caribbean area have had a divisive effect on inter-American relations that is adverse to the US security concept of Hemisphere solidarity.

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The Current Situation in Chile

(Summary -- Recurrent political problems arising from the basic incompatibility of government coalition parties, together with increasing economic distress, threaten the stability of the González administration. Mounting restlessness in labor's ranks has proved advantageous to Communist activity. The armed forces remained loyal to the government during the crisis of mid-August. Tension in Chilean-Argentine relations has been renewed.

-- Developments in Chile have impaired US security interests in Hemisphere stability and solidarity, the first by the deterioration in the political and economic stability of González Videla's government, a declared friend of the democracies in general and of the US in particular, and the second by the deterioration in Chilean-Argentine relations and by Chilean efforts to force acceptance of their thesis of the division of Hemisphere countries into opposing groups -- democracies and the totalitarian states.)

Political

Recurrent political problems -- arising from the basic incompatibility of the parties forming the pro-government coalition and aggravated by increasing economic distress -- have further threatened the present administration. In mid-August student-labor rioting followed by sporadic strikes over spiralling living costs resulted in the granting of special powers to the Executive, the renewal of repressive measures against the Communists, and a cabinet crisis which threatened to upset the present delicate political balance. Prompt and aggressive action by the President to control the disorders, the continued loyalty of the armed forces to the government, and the rescinding of transit fare increases (which originally touched off the rioting), together with administration promises of economic reform, prevented more serious developments; these disorders, however, have served to expose the popular discontent with the González administration and to heighten the uneasiness prevailing among pro-government parties.

Although a serious break between President González and the Radical Party has been avoided for the present, and although the promotion of a leftist opposition bloc under Radical aegis appears improbable for the

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near future, the Radicals still appear anxious to reclaim their place of leadership on the non-Communist left and have proposed an economic program that, [REDACTED] is equivalent to state socialism.

To add further to the administration's problems, the conservative elements of the government coalition, particularly the Liberals, are displaying a growing displeasure with administration economic policies. The Liberal Party wishes to reduce government spending and discontinue present exchange rates and foreign trade controls. Although the recent disorders have served to reaffirm their support of the Executive, it is probable that friction will develop over any government-sponsored measures opposed to the Liberals' program.

Finally, the right-wing Socialist members of the pro-government coalition have been negotiating regarding unity with the left 25X6A 25X1X40 Popular Socialists, a part of the government's opposition, and, [REDACTED] went so far as to tell President González during the August disturbances that in case of a general strike they too would feel forced to participate.

In short, the dilemma of the government is that growing popular discontent, uneasiness among pro-government "leftist" parties, and deepening economic distress call for prompt and effective measures to combat a gathering crisis, while at the same time any effective economic steps would probably adversely affect the wealthy group on which the administration depends for support in the congress. It is estimated that the best the President can do in the immediate future is to obtain passage of a compromise program, probably pleasing to no one group but innocuous enough to prevent an open break in the coalition.

#### Economic

Repercussions from the decline in copper prices continue to be the most immediate problem affecting the deterioration in Chile's economic position. The trend in business and industrial operations has been downward while no corresponding decline in consumer prices has taken place. Popular dissatisfaction with this situation resulted in the Communist-inspired labor difficulties of mid-August and redoubled government efforts to ease the situation. So far, a campaign against speculators, a readjustment of import categories, a subsidy voted to small mine operators, and a redoubled effort to obtain a loan from the US constitute the main

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efforts of the administration, measures which are palliative rather than curative. B/LA estimates that the basic divergence of views existing between members of the government coalition will make difficult if not impossible any really constructive revision of Chilean economic policy.

Mounting restlessness in labor's ranks boiled to the surface in the recent riots and abortive strikes. The painfulness to labor of the general economic decline which has brought cutbacks in the operations of the big copper producers has not been significantly alleviated by government efforts to absorb the unemployed in public works projects or by the cushioning action afforded by unemployment compensation, measures which are of necessity temporary. In the opinion of B/LA, this deterioration in the economic position of the workers, following, as it does, the still well-remembered ousting of militant Communist leadership and the subsequent dispersion of labor's power, bodes ill for administration hopes of retaining labor support -- particularly as it now appears that the President's proposals for general social as well as economic reforms will be vitiated by conservative interests.

#### Subversive

The Communists, quick to take advantage of the government's difficult position and to capitalize on general discontent over living costs, attempted to turn the August demonstrations into a general strike movement. The movement failed, and renewed government repression of known Communists has followed. Nevertheless, the attempt has indicated the effectiveness of Communist technique in organizing student-labor committees (ostensibly non-Communist but pliable party tools when needed) and in reasserting its strength on the rank-and-file level of the unions. It is considered that Communist influence, particularly in the labor field, remains a potentially serious threat, especially in view of labor's general dissatisfaction with present conditions.

#### Military

The armed forces remained loyal to the government in the recent disturbances and aided in restoring or preserving order in threatened areas. This loyalty, however, is not personal loyalty to González Videla, and B/LA estimates that, in a crisis more acute and not so easily despatched, some officers (probably including the new Army Chief of Staff) would suggest the President's retiring in favor of a junta.

#### International

In international affairs, Chile has withdrawn the last of its diplomatic personnel from Venezuela and has continued to regard both the

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Venezuelan and Peruvian governments with reserved disapproval while cordial exchanges between Chile and the countries it considers democratic (Colombia, Ecuador, Uruguay, and Cuba) has grown apace.

The unsympathetic treatment which the Argentine press gave to the August unrest in Chile, reporting the downfall of "dictator" González' government, led to Chilean protests to Argentina. The tension between the two countries was increased when the most recent Bolivian revolt revived Chilean accusations that Argentina is aiding and abetting the Bolivian rebels in hopes of establishing there a sympathetic military regime, thus surrounding democratic Chile with hostile governments with an eye to bringing about the eventual downfall of González Videla. Chile would like to see the US publicly draw a line between the democratic sheep and the militaristic goats (allegedly under Perón's leadership) in the Hemisphere and back up US friendship for the democracies with material aid, a loan to Chile being of first and foremost importance. The precarious position of the González government probably accounts for Chile's present anxiety regarding additional funds from the US and for the renewed attempt to define US and Chilean interests as identical in opposing any extension of Argentine influence. Nevertheless, B/LA regards these accusations as detrimental to US interest in Hemisphere solidarity since such charges, whether true or not, tend to divide the member nations into opposing camps.

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